

## Message Text

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ACTION SP-02

INFO OCT-01 ARA-06 ISO-00 SS-15 PC-01 NEA-06 EA-06 AF-04

NSC-05 OMB-01 TRSE-00 AID-05 CIAE-00 INR-05 NSAE-00

RSC-01 L-01 ABF-01 PM-03 EB-04 /067 W

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 3105

C O N F I D E N T I A L QUITO 7333

E.O. 11652: GDS

TAGS: PFOR, SGEN, EC

SUBJ: FY 76 PC PROGRAM

REF: STATE 236947

1. SUMMARY: PEACE CORPS DIRECTOR BELIEVES THAT CONTRIBUTION OF 5 PERCENT OF FY 76 BUDGET CAN BE GENERATED THROUGH SELECTED REQUESTS TO INDIVIDUAL INSTITUTIONS RECEIVING VOLUNTEERS. RECENT DECISION TO PHASE-DOWN AID CREATES INAPPROPRIATE CLIMATE FOR DIRECT APPROACH TO FONMIN INSISTING ON SPECIFIC LEVELS OF HOST COUNTRY SUPPORT. RESULT OF INSISTENCE ON HOST COUNTRY CONTRIBUTION WOULD LIKELY BE REFUSAL AND COULD FORCE TERMINATION OF PEACE CORPS PROGRAM THIS WOULD ADVERSELY AFFECT U.S. INTERESTS AND COMPOUND EFFECT OF AID REDUCTION. MISSION PREFERS SOME PHASING-DOWN IN PEACE CORPS OPERATIONS IN FY 76 TO RUNNING THESE RISKS. END SUMMARY.

2. OUR SPECIFIC RESPONSES TO QUESTIONS RAISED REFTEL, KEYED TO LETTERED SUB-PARAGRAPHS PARA 5, FOLLOW:  
A. MOST LIKELY RESPONSE OF FONMIN NOW WOULD BE NEGATIVE. PEACE CORPS' REQUEST WOULD BE INTERPRETED AS LINKED TO RECENT AID DECISION TO SHIFT FINANCING OF U.S. TECHNICAL ASSISTANCE INPUTS TO GOE PURSE, ANNOUNCED TO FONMIN LAST WEEK. FONMIN MIGHT EVEN SEE THIS AS PART OF U.S. PLAN TO INFLUENCE OTHER DONORS TO CHANGE ECUADOR'S  
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STATUS AS MAJOR RECIPIENT OF BINATIONAL AND JULTINATIONAL ASSISTANCE, IN WHICH CASE WE COULD EXPECT VIGOROUS NEGATIVE

REACTION. PEACE CORPS DIRECTOR BELIEVES HOWEVER THAT LATERNATE APPROACH TO COST SHARING IS AVAILABLE WHICH AVOIDS THIS RISK. INDIVIDUAL ECUADOREAN INSTITUTIONS WOULD BE REQUESTED OVER NEXT THREE MONTHS TO PAY FOR NEW VOLUNTEERS AT LEVELS REFLECTING EACH INSTITUTION'S AVAILABLE RESOURCES. COUNTRY DIRECTOR ESTIMATES THIS WOULD GENERATE 5 PERCENT OF FY 76 OPERATING COSTS, AND COULD GROW TO LARGER PERCENTAGES IN SUBSEQUENT YEARS.

B. AS EXPLAINED IN A ABOVE, CURRENT AID PHASE-OVER PRESENTS SPECIAL CIRCUMSTANCE IN ECUADOR. ON COUNTRY-WIDE BASIS PROBABLE FONMIN DECISION WOULD BE REFUSAL TO CONTRIBUTE. DEPENDING ON APPROACH IN PRESENTING PEACE CORPS REQUEST, THIS REFUSAL COULD SHUT OFF NEW VOLUNTEERS, OR EVEN BRING PROGRAMS TO MORE ABRUPT END.

C. IN SPITE OF DEVELOPMENT OF MODEST PETROEUM PRODUCTION, ECUADOR REMAINS POOR COUNTRY WITH FIFTH-LOWEST PER CAPITA GNP IN HEMISPHERE. U.S. HAS A STRONG INTEREST IN SUPPORT OF COUNTRY'S ECONOMIC DEVELOPMENT AND IMPROVED DISTRIBUTION OF RESOURCES. WHILE PEACE CORPS ALONE IS NOT MAJOR FORCE IN SOCIO-ECONOMIC CHANGE IN ECUADOR IT IS CURRENTLY PLAYING EFFECTIVE ROLE IN GUIDING AND COMPLEMENTING NATIONAL EFFORTS. AFTER AID WITHDRAWAL IT WILL BE ONLY USG AGENCY DOING SO. IN ADDITION, CONSIDERATION NEEDS TO BE GIVEN TO POSSIBLE EMOTIONAL REACTION TO PEACE CORPS TERMINATION, MENTIONED IN A ABOVE, WHICH COULD PREJUDICE US MILITARY SALES AND OTHER ECONOMIC INTERESTS HERE.

D. AID AND PEACE CORPS BASICALLY SHARE GOALS IN ECUADOR. FREQUENTLY THE TWO ORGANIZATIONS HAVE COMPLENETED EACH OTHER IN SPECIFIC PROJECTS SUCH AS DEIDS. SINCE AID IS PHASING-DOWN, A CONCURRENT PEACE CORPS WITHDRAWAL WOULD COMPOUND EFFECT ON ACHIEVING GOALS OF THESE JOINT PROGRAMS.

E. AS EXPLAINED IN A ABOVE, PEACE CORPS DIRECTOR BELIEVES CAREFUL ALTERNATIVE APPROACH TO INDIVIDUAL INSTITUTIONS CAN PRODUCE 5 PERCENT OF FY 76 OPERATING BUDGET, AND INCREASING PERCENTAGES IN SUBSEQUENT YEARS. IF ADDITIONAL REDUCTIONS ARE REQUIRED IN ACTION FUNDING OF PEACE CORPS OPERATIONS IN ECUADOR, WE WOULD OBVIOUSLY PREFER TEMPORARY PHASE-DOWN TO RISK OF INSISTING ON HIGHER HOST COUNTRY  
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CONTRIBUTION.

3. ADDITIONAL COMMENTS: ALL OF US ARE VERY SATISFIED WITH WHAT THE PEACE CORPS IS ACCOMPLISHING IN ECUADOR. WE, OF COURSE, UNDERSTAND THE CONSIDERATIONS WHICH HAVE LED WASHINGTON TO RAISE THE QUESTIONS CONTAINED REFTEL. NONETHELESS, WE HOPE THAT PEACE CORPS' CURRENT SUCCESS IN ECUADOR WOULD LEAD TO THE ADOPTION OF THE GRADUALISTIC APPROACH TO REDUCTION OF OUR CONTRIBUTION SET FORTH IN PARAGRAPH E ABOVE.

4. WE HASTEN TO ADD, THAT IT STRIKES US AS SOMEWHAT ALIEN TO THE ENTIRE PEACE CORPS PHILOSOPHY TO PRESS TOO HARD FOR HOST COUNTRY CONTRIBUTIONS. WE CAN FORESEE THAT IF THIS COURSE IS PURSUED TOO FAR, SOME VERY INNOVATIVE PROGRAMS COULD BE JEOPARDIZED. AFTER ALL, MANY OF THE PEACE CORPS MOST SUCCESSFUL EFFORTS HAVE BEEN AHEAD OF THEIR TIME, HAVE FREQUENTLY MET RESISTANCE FROM MORE TRADITIONAL ELEMENTS IN THE HOST COUNTRY, AND WOULD LIKELY NOT HAVE GOTTEN OFF THE GROUND ON A COST-SHARING BASIS. WE WOULD HATE TO SEE THIS INNOVATIVE ROLE DIMINISHED.  
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